

**ST. MARY'S UNIVERSITY**  
**BUSINESS FACULTY**  
**DEPARTMENT OF ACCOUNTING**

**ASSESSMENT OF INTERNAL CONTROL OVER CASH MANAGEMENT  
IN CASE OF ZENITH GEBS ESHET ETH.LTD**

**BY**

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**JUNE 2014**  
**ADDIS ABABA**

**A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTING BUSINESS FACULTY**

**ST. MARY'S UNIVERSITY**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
DEGREE OF BACHELOR OF ARTS IN ACCOUNTING**

**BY**

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**Advisee's Declaration**

We the undersigned, declare that this senior essay/project our original work, prepared under Guidance of Ato Fisum Habte. All sources of materials used for the manuscript have been duly acknowledged

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The paper has been submitted for examination with my approval as the University advisor.

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**Acknowledgements**

We are deeply grateful to our advisor **Ato Fitsum Habte** for his precious comments and suggestions during the course of this study. In addition, we would like to express our deep gratitude to the staffs and manager of zenith Gebs Eshet Eth. Ltd who participated in this study during the data collection process.

**BUSINESS FACULTY**  
**ACCOUNTING DEPARTMENT**

**Questionnaire prepared for employees who work in the finance department of zenith  
Gebsehet Eth.ltd.**

This questionnaire has been prepared to assess the internal control over cash management of Zenith Gebs Eshet Eth.Ltd. The primary objective of the questionnaire is to collect data, information & opinion for the conduct of a senior essay for a partial fulfillment of the requirement award of BA in the field of Accounting. Thanking you in advance for your valued time & cooperation, the researchers believes that your genuine response, opinion & views are only for academic purpose & also kept confidential.

N.B Please put this mark V on the box corresponding to your response.

1. Sex Female  Male

2. Age

A. 20-30

B.30- 40

C.40-50

Above 50

3. Educational level

A .Below Diploma

B . Diploma

C. First Degree

D. Above Degree

4. Postition

5. Work xperience

A. Less than a year Q

B. Between 1-3 year |—|

C. Between 4-6 years

D. More than 6 years

**Internal control over cash receipts**

1. Are cash receipts deposited daily and intact?

Yes                      No                      Not applicable

2. Is there any job description and responsibility given to each employee?

Yes                      No                      Not applicable                     

3. Are bank stamped duplicate deposit tickets compared with the cash receipts journal?

Yes                      No                      Not applicable

4. Does a responsible official not involved in the custody of the cash make periodic bank reconciliation with cash register?

Yes                       No  \_\_\_\_\_ | Not applicable                       \_\_\_\_\_ |

5. Are cash receipts from miscellaneous sources independently controlled?

Yes                      No                      Not applicable

6. Are all persons involved in cash handling or cash transactions?

Yes                      No                      Not applicable

7. Does any person in the cashiers department:

a) Prepare sales invoices?

Yes                      No  Not applicable

b) Maintain the sales records?

Yes  No  CD Not applicable | \_\_\_\_\_ |

## II. Internal control over cash disbursements

1. Does the organization alternate signatories?

Yes                      No                      Not applicable |

2. Are all cheque payment vouchers are pre-numbered?

Yes                      No j j Not applicable J \_\_\_\_\_ |

3. Are unused cheques properly controlled?

Yes                      No                      Not applicable

4. Are all cheques made payable directly to organization?

Yes                      No                      Not applicable j j

5. Are persons who sign cheque prohibited to:

a) Approve cash disbursements?

Yes                      No                      Not applicable |                      |

b) Record cash payments?

Yes                      No                      Not applicable j—j

c) Post to ledger accounts?

Yes                      No                      Not applicable |                      |

6. Does the organization instruct the banks not to pay the upper limit amount without confirmation?

Yes                      No                      Not applicable

7. Are all cheque signed only after they are prepared?

Yes                      No |                      | Not applicable

8. Is bank reconciliation prepared monthly?

Yes                      No                      Not applicable

9. Is the person preparing the reconciliation?



**BUSINESS FACULTY**  
**ACCOUNTING DEPARTMENT**

**Interview questionnaires are designed for the Finance manager and general accounts of Zenith Gebs Eshet Eth.LTD.**

1. Would you briefly discuss about the cash receipt and payment system?
2. Did u call for references for posts associated with cash?
3. Are all employees engaged in cash related work insured?
4. Did u always make sure that the daily cash collection form sales are deposited to bank on a daily basis?
5. What are the constraints, if any, hinder ineffective cash management in your organization?
6. Do u believe that the organization's cash management is effective enough to safeguard cash management?

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# INTRODUCTION

## 1.1 Background of the study

Internal control is a system set up by the management of a company to monitor and control the company's activities (Collin& Joliffe, 2000:118). In 1936, the American Institute of Certified Public Accountants (AICPA) defined internal control as those measures and methods adopted within the organization itself to safeguard the cash or other assets of the company and to check the clerical accuracy of the bookkeeping. Again, AICPA (1949) defined internal control as the plan of organization and all of the coordinate methods and measures adopted by a business to safeguard its assets, check the accuracy and trustworthiness of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

According to Fight (2002), cash is the most liquid of assets and is susceptible to loss if not properly controlled. Therefore, it is extremely important that, all departments handling cash implement and adhere to strong internal controls. For the purposes of this study, "cash" includes coins, currency, checks, money orders, internal charges, credit card . (Angelovska, 2010).

A good cash management system has the basic objectives to provide accounting for cash receipts, cash disbursements, and cash balances. A large portion of the total transactions of a business involves the receipt or disbursement of cash, to prevent or minimize losses from theft or fraud. Cash is more susceptible to theft than any other asset and therefore, requires physical protection, to anticipate the need for borrowing and assure the availability of adequate amounts of cash for conducting business operations, and to prevent unnecessary large amounts of cash from sitting idle in bank accounts which produce no revenue.

Zenith Gebshet is one of the major cosmeceutical manufacturer in Ethiopia. In its experience, it has commercialized over 15 products which are exported and distributed all over Ethiopia.

Observing the above fact, it can be understood that zenith Gebshet collects a great deal of cash from its customers. Again it is obvious that for every cash collection there need to be cash disbursement: meaning in order to manufacture and commercialize particular products, it has to disburse cash for raw material acquisition, salary, commission & other

outlays. Thus, to have a smooth cash flow, Zenith needs to have a sound internal control system.

## **1.2 Statement of the problem**

A good cash management system has the basic objectives to provide accounting for cash receipts, cash disbursements, and cash balances. A large portion of the total transactions of a business involves the receipt or disbursement of cash, to prevent or minimize losses from theft or fraud.

A good cash management system should also provide for the timely identification of errors and/or irregularities which may have occurred so that corrective action can be taken.

As stated above having a good cash management system so as to control cash is necessary for effective operation of the organization. Thus, the main reason behind selecting Zenith Gebshet for this research is because the researchers were informed by some company's employees that there exists a problem with regards to internal control over cheque payment and petty cash payment. So, by doing this research the student researchers tried to answer the following questions.

Does the organization have a sound internal control?

What are the internal control over cash strength and weakness in the organization?

Does the organization use internal control process effectively and efficiently?

## **1.3 Objectives of the study**

### **1.3.1 General objectives:**

The general objective of the study is to assess internal control over cash management in case of Zenith Gebshet eth ltd.

### **1.3.2 Specific objectives:**

To prove the existence of sound internal control system.

To identify the strength and weakness of internal control over cash management.

To investigate that the organization use internal control process effectively and efficiently.

## **1.4 Research design/methodology**

### **1.4.1 Research Design**

The research design is a conceptual structure that shows how all the major parts of the research project come together. In this study, the type of research was descriptive type. The rationale for selecting this type of research was that the study has no control on the variables; rather it describes the assessment of internal control over cash management of Zenith Gebs Eshet Eth. Ltd.

### **1.4.2 Population, Sample size, Sampling Techniques**

From the total of 25 target population size, the student researchers take 13 sample size out of which 10 questionnaires and an interview with the finance manager and 2 General accounts and use random sampling technique.

### **1.4.3 Method of data collection**

The student researchers utilize both primary and secondary data. The primary data gathered through questionnaires and interview. Secondary data gathered from Accounting documents and records, financial reports, manuals, audit reports and management reports, and written materials on the subject.

### **1.4.4 Data Analysis**

The student researchers used a quantitative descriptive approach in the assessment of the study. Because, the facts that are gathered were qualitative in nature and preferable for the student researchers to describe the fact according to the interview & questionnaires conducted.

## **1.5 Significance of the study**

Cash, which is the most sensitive and fundamental of all assets for the business, requires more effort and consideration to deal with it. Besides, directly or indirectly, it affects both the income statement and the balance sheet. Thus, this paper is significant and is believed to contribute for the proper internal control of cash of ZGEEL, can serve as a stepping - stone for subsequent studies on this matter and also help us for the partial fulfillment of bachelor of art degree in accounting.

### **1.6 Scope of the study**

The study covers the internal control over cash management of the Zenith Gebshet eth ltd. And the time covered by the researchers was from July to December in 2013.

### **1.7 limitation of the study**

In fact, without any problem one research cannot be completed, therefore, to conduct this research, our constraints was as the total population was small it was possible to take all of them as a sample but because of there working area is located around Mercato and because of their busyness they were not volunteer to fill the questionnaire.

### **1.8 Organization of the study**

The paper is organized in the following manner. The paper has four chapters. The content of chapter one includes the main parts like the introduction part, statement of the problem, objective of the study and research methodology. The content of chapter two includes literature review, the content of chapter three data analysis and presentation and chapter four summaries of findings, conclusion and recommendation.

## LITERATURE REVIEW

### 2.1 Meaning and Nature of cash

Cash is the most liquid current assets and includes cash in hand and cash at bank. It provides instant liquidity and can be used to meet obligations / acquires assets without any delay (M.khan ,1999, 417)

Cash is a current asset comprised of coins currency and other items, that serve as a medium of exchange and provides the base for measurement in accounting.(Smith, et al, 1995:283)

Cash includes currency, coins, and amounts in deposit in bank accounts, checking accounts and some saving accounts. Cash also includes items that are acceptable for deposits in these accounts such as customers' checks, certified checks, fuel coupons and money orders (cash policy and procedures manual)

Here the general rule is that if the bank will accept it for deposit, it is cash.

Many business organizations maintain several bank accounts and also keep a small amount of cash on hand. Therefore, the cash account in the general ledger account is a controlling account.

A cash subsidiary ledger includes separate accounts corresponding to each bank account and each supply of cash on hand within the organization. (Meigs, et al, 1995, 324)

The cash account which appears on the balance sheet includes only those items immediately available to pay obligations coins, currency, petty cash & certain negotiable instruments accepted by financial institutions for immediate deposit and withdrawal, can be taken as cash. These negotiable documents include ordinary checks, cashier's checks, certified checks, & money orders. The balance of the cash control account reflects all items included in cash. (Dyckman, et al, 1998, 319)

There are forms of money, which are not considered as cash. These are government sharing bonds & promissory notes or postage stamps. This is because they cannot be deposited directly in a bank account and can be used only for one purpose, such as to retire long term debt or pay retirement benefits. Cash restricted in use should not be

represented as cash on the balance sheet. They shall be reported separately on the Balance sheet as restricted cash. (Smith, et al,1986: 254)

Compensating balance {minimum average balance} is also another money item, which is not included in the cash account. It is a minimum balance that must be maintained in depositor's account as support for funds borrowed by depositor (Dyckman, et al, 1998; 320)

It shall not be included in cash account because it is not currently available for use. But many business organizations include this balances .in cash account and disclose the restrictions in notes to the financial statements.

## **2.2 Management Responsibilities relating to cash**

Efficient management of cash includes measures that will

1. Provide accurate accounting for cash receipts, cash payments, and cash balances'
2. Prevent losses from fraud or theft
3. Maintain sufficient amount of cash at all times to make necessary payments plans a reasonable balance for emergencies.
4. Prevent unnecessarily large amounts of cash from being held idle in bank accounts which produce no revenue

Internal control over cash is some time regarded merely as a means of preventing fraud or theft. A good system of internal control, however, will also aid in achieving management's other objectives of accurate accounting for cash transaction and maintenance of adequate but not excessive cash balances.( Meigs ,et al, 1995 : 259)

## **2.3. Cash managements**

Cash management is one of the key areas of working capital management. Apart from the fact that it is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets that are receivables and inventory get eventually converted in to cash.

### **2.3.1.1 Definition of cash management**

The term cash management refers to planning, controlling, and accounting for cash Transactions and cash balances. Because cash moves so readily between bank accounts and other financial assets, "cash management" really means the management of all financial resources (Meigs, et al, 1995: 326)

### **2.3.1.2 Objectives cash management**

The basic objectives of cash managements are as follows

- To provide accounting for cash receipts cash disbursements, and cash balances. A large portion of the total transactions of a business involves the receipt or disbursement of cash.
- To prevent or minimize losses from theft or fraud. Cash is more susceptible to theft than any other asset and therefore, requires physical protection.
- To Anticipate the need for borrowing and assure the availability of adequate amounts of cash for conducting business operations
- To prevent unnecessary large amounts of cash from sitting idle in bank accounts which produce no revenue.

### **2.3.1.3 Basic principles of cash management**

In managing cash, any organization must consider many factors. The basic principles of cash management are.

1. Increase the speed of collection on receivables
2. Keep inventory levels
3. Delay payment of liabilities
4. Plan the timing of major expenditures
5. Invest Idle cash

### **2.3.1.4 Motives for holding cash**

There are some motives for holding cash and near -cash balances. Each motive is based on two underlying questions.

1. What is the appropriate degree of liquidity to maintain?

2. What is the appropriate distribution of Liquidity between cash and marketable securities?

- Transactions Motives

A firm maintains cash balances to satisfy the transactions motives, which is make planned payments for items such as materials and wages. If cash inflows and cash out flows are closely matched, transaction of cash balances can be smaller.

- Safety Motives

Balances held to satisfy. The safety motive are invested in highly liquid marketable securities that can be immediately transferred from securities to cash such securities protect the firm against being unable to satisfy unexpected demands for cash.

- Speculative Motives

It refers to the desire of a firm to take advantage of opportunities which present themselves at an expected moments and which are typically outside the normal course of business

- Compensating Motives

It is a motive to hold cash balances to compensate banks for providing certain services and loans.

Banks provide a variety of services to business firms, such as clearance of check, supply of credit information, transfer of funds, and so one compensating balance are minimum checking account levels that the firm agrees to maintain at the bank.

Of the above four primary motives of holding cash balances, the two most important are the transactions motive and the compensation motive.

### **2.3.1.5 Basic strategies of cash management**

Cash management strategies are intended to minimize the operating cash balance requirement. The basic strategies that can be employed to do the needful are as follows.

1. Stretching accounts payable
2. Efficient inventory production management
3. Speedy collection of Accounts Receivable
4. Combined cash management strategies.

### **1. Stretching Accounts payable**

One basic strategy of efficient cash management is to stretch the accounts payable.

In other words a firm should pay its accounts payable as late as possible without damaging its credit standing. It should, however, take advantage of the cash discount available on prompt payment.

### **2. Efficient inventory production management**

Another strategy is to increase the inventory turnover, avoiding stocks - outs, that is shortage of stock. This can be done in the following ways.

1. Increasing the raw materials turn over by using more efficient inventory control techniques
2. Decreasing the production cycle through better production planning scheduling and control techniques; it will lead to an increase in the work-in- progress inventory turnover.
3. Increasing the finished goods turnouts through better forecasting of demand and better planning of production.

### **3. Speeding collection of Accounts Receivable**

Yet another strategy for efficient cash management is to collect accounts Receivable as quickly as possible without losing future sales because of high-pressure collection techniques. The average collection period of receivable can be reduced by changes in (I) credit terms, (II) credit standards and (III) collection policies.

### **4. Combined cash management strategies**

It is an advice to use the above described combination of strategies

#### 2.3.1.6 Techniques of cash management

Cash management techniques involve certain methods that can speed collection and slow disbursements.

## Accelerating Collection

Determining where and when funds are needed and getting available funds to the right place.

Controlling disbursement

### **1. Accelerating Collection-**

Stimulating collection involves conversion of payment into a spend able form as quickly as possible, that minimizing collection float.

As Gitman defines it, "collection float is a time delay between the time when a payer or customer deducts payment from its checking account ledger and the time when the payee or vendor actually receives it."

The three sources of delay that give rise to float are

Mail float: - When money is tied up in the mailing processes.

Processing float: - When funds are received from

Deposit float: - Checks are deposited but not yet" cleared" through the banking system.

Several techniques are used to hasten collection and to get the cash when and where it is needed. These are:

- > Lock box System: - A collection procedure wherein the payer sends payment to a nearby post office box that is installed by the firm's bank. (Gitman, et al, 1997:747)
- > Pre authorized debit: - A pre authorized debit is a collection accelerating system in which the funds are to be automatically transferred from the customer's account to the firm's account. In this system, the check does not require the customer's signature. (Brighan, et al, 1990:706)
- > Concentrating banking: - A collection processes in which payments are made to a regionally dispersed collection center, then deposited in local banks for quick clearing. (Gitman, et al, 1997:746)

Using the above collection techniques, firms could probably increase the inflow of cash to the company to be used as needed or reinvested.

Effective control of disbursements can also result in more availability of cash, as does accelerating collection. The combination of fast collection and slow disbursements will result in the maximum availability of funds. (Ranhorne, et al, 1998:347)

As that of accelerating collection, controlling disbursements also has different techniques, which slow cash disbursement.

- i. Avoidance of early payment: - Though this method tends to decrease relatively, the credit rating or trade credit of the firm, implementing it carefully may reduce the intensity of cash outflow.
- ii. Bank draft: - When the firm issues a check, it will be presented to the bank soon and then the firm's checking account is reduced. However, a bank draft which is an order drawn by a firm upon its bank to pay the third party, will be sent back again to the firm for approval. This creates extra time, which decelerates disbursement.
- iii. Using accruals: - Use of accruals refers to the choice of payment pattern for wages and taxes. It is a system of selecting time fairly to make payments of wages and tax so that payments are delayed.
- iv. Playing the float: - Sometimes the firm's actual bank balance is greater than the firm's records. So that, if the firm's money manager is able to estimate the balance correctly, he can invest the float during the float period. This float is called reverse float. (Maurice 1983:393)

### **2.3.2 Cash planning**

Cash inflows are inseparable parts of the business operations of firms. A firm needs cash to invest in inventory, receivable and fixed assets and to make payment for operating expenses in order to maintain growth in sales and earnings. It is possible that firm may be making adequate profits, but may suffer from the shortage of cash as its growing needs may be consuming cash very fast. The cash poor position of the firm can be corrected if its cash needs are planned in advance. At times, a firm can have excess cash with it if its cash inflows exceed cash out flows such excess cash may remain idle. Again, such flows

can be anticipated and properly invested if cash planning is resorted to. Thus, cash planning can help to anticipate the future cash flows and needs of the firm and reduces the possibility idle cash balance.( Pandey 1999 P-914)

### **2.3.3 Cash Control**

Control producer is those policies and procedures that management has established within the control environment in order to provide reasonable assurance that enterprise goals will be achieved. In general terms, internal controls are simply good business practices. They include anything, which serves to safeguard assets or to improve the effectiveness and efficiency of operations.

### **2.4 Internal Control over Cash**

Just as cash is the beginning of a company's operating cycle it is usually the starting point for a company's system of internal control. Cash is one of the asset that is readily convertible in to any other type of assets, it is easily concealed and transported and it is highly desired. Because of these characteristics, cash is the asset most susceptible to improper diversion and use. Moreover, because of the large volume of cash transactions, numerous errors may occur in executing and recording cash transactions. To safeguard cash and to assure the accuracy of the accounting records for cash, effective internal control over cash is imperative. (Kimmel,et al., 1998:295)

Lack of proper safeguard over cash may results in misappropriation of cash this is aggravated by the liquid nature of cash. Cash, in any form can be converted to its simplest, most acceptable form, commonly referred to as money, which everyone wants, cash in any form, hence it must be protected If not protected or controlled, cash in any form may be lost to pilfering in enormous sums to clever schemes of theft or through honest mistakes. Thus the cash flowing through an economic entity must be protected or controlled (Smith,et al, 1986: 254)

### **Systems of internal control over cash**

Each particular business is expected to adopt a system for controlling cash internal control over cash. Internal control over cash is sometimes regarded merely as a means of preventing fraud and theft.

A good system of internal control, however, will also aid in achieving the other objectives of efficient cash management, including accurate accounting for cash transactions; anticipating the need for borrowing and the maintenance of adequate but not excessive cash balances.

The major steps in achieving internal control over cash transactions and cash balances includes:

- Separate the function of handling cash from the maintenance of accounting records.
- Employees who handle cash should not have access to the accounting records, & accounting personnel should not have access to cash.
- Prepare for each department within the organization a cash budget (or for cost) of planned cash receipts, cash payments and cash balances, scheduled month by month for the coming year.
- Prepare a control listing of cash receipts at the time and place the money is received. . For cash sales, this listing may be a cash register tape, credited by ringing up each sale on a cash register. For checks received through the mail, the employee assigned to open the mail should prepare a control listing of incoming checks.
- Require that all cash receipts be deposited daily in the bank.
- Make all payments by check. The only exception should be for small payments to be made in cash from a petty cash fund.
- Require that the validity and amount of every expenditure to be verified before a check is issued in payment.
- Separate the function of approving expenditures from the function of signing checks.
- Promptly reconcile bank statements with the accounting records.

The organization may also supplement its system of internal control by obtaining a fidelity bond from an insurance company under a fidelity bond the insurance company agrees to reimburse an employer for proven losses resulting from fraud or embezzlement by bonded employees.(Meigs ,et al, 1995, 326-327)

#### 2.4.1 Internal control over cash receipt

Cash receipts result from a variety of sources; cash sales, collections on account from customers, the receipt of interest, rents and dividends, investments by owners, bank loans, and proceeds from the sale of noncurrent assets. Although Businesses vary, there are specific procedures for controlling cash receipts these are principles of internal control over cash receipts. To safeguard assets and enhance the accuracy and reliability of its accounting records a company follows internal control principles.

- Establishment of responsibility: - Here only designated personnel (cashiers) are authorized to handle cash receipts.
- Segregation of duties: - Different individual receive cash, record cash receipts, and deposit or hold the cash.
- Documentation procedures: - Use remittance advice (Mail receipts) cash register tapes and deposit slips.
- Physical, Mechanical and Electrical controls: - Store cash in safes and bank vaults, limit access to storage areas, use cash registers.
- Independent Internal Verification: - Supervisors count cash receipts daily treasurer compares total receipts to bank deposits daily
- Other controls: - Bond personnel who handle cash require vacations, deposit all cash in bank daily. ( Kimmel,et al,1997,295-296)

#### 2.4.2 Internal control over cash payment

Cash is disbursed for a variety of reasons such as to pay expenses and liabilities or to purchase assets. Generally internal control over cash disbursements mints is more effective when payments are made by check, rather than by cash except for incidental amounts that are paid out of petty cash. Payment is made by check generally only after specified control procedures have been followed.

In addition the "paid" check provides proof of payment. There are principles of internal control, which should be applied to cash disbursements.

Establishment of responsibility: - Only designated personnel (treasurer) are authorized to sign checks.

- Segregation of duties: - Different individual approve and make payments check signers do not record disburse approved in voice.
- Physical, Mechanical & Electronic controls: - Store blank checks in safes, with limited access print check amounts by machine in indelible ink.
- Independent Internal verification: - Compare checks to invoices; reconcile bank statement monthly.
- Other controls: - Stamp Invoice PAID.  
(Kimmel, et al, 1997, 296-297)

## **2.5. Accounting for petty cash**

The basic principle for controlling cash disbursements is that all payments are made by cheque. An exception to this rule is made for petty cash disbursements this fund established to effect small and recurring cash payments. Any amounts other than small payments as stated by petty cash policy should be excluded (cash policy and procedures manual)

A common way of handling such payments while maintaining satisfactory control is to use a petty cash fund

- Establishing the fund: - Initially the fund is established by writing a check and providing it to the petty cash custodian. It should be large enough to make disbursements for a reasonable period. Petty cash is debited and cash at bank is credited to recognize the establishment of the fund.

Internal control is applied because the petty cash custodian normally places the money in a small box that can be locked after the check is cashed.

- Operating the fund:- At the time of disbursing the cash from the fund there is no need for an entry to be made. Rather when the fund is reimbursed, or when the end of accounting period arrives, making an entry in the journal is required (Hermeson, et al, 1995:313)
- Replenishing the fund: - Whenever the amount of cash in the fund runs low, and also at the end of each accounting period the fund is replenished by writing a check equal to the payments made. In recording replenishment, expense and other appropriate accounts are debited for petty cash disbursement and cash is credited.

When the fund failed to balance, an adjustment is usually made to miscellaneous expense or to a revenue account sometimes called "Cash short and over"

## **2.6. Bank as a controlling mechanism**

Cash at bank includes all cash balances in the bank account opened in the name of the company. Any payment to be made from his account will be effected using cheques or cash payment order. This contribute to maintain strong internal control, thus bank accounts are an important means for cash control and provides several advantages (cash policy and procedures manual)

It has already been emphasized that significant cash disbursements should be made by check.

- Cash is physically protected by the bank
- A separate record of cash is maintained by the bank
- Cash handling and theft risk are minimized
- Customers may remit payments directly to the bank
- Financial institutions provide cash management services such as checking privileges investment advice and interest revenue. (Dyckman ,et al,1995:322)

Each month the bank provides the depositor with a statement of the depositor's account, accompanied by the checks paid and charged to the account during the month a bank statement shows the balance on deposit at the beginning of the month, the deposits, the checks paid, any other debits and credits during the month, and the new balance at the end of the month.

The depositor company also maintains a book for the transactions related to the bank account. So when daily receipts are deposited and payments other than those from petty cash are made by check, the banks statement of transactions with depositors can be compared with the record of cash as reported on the depositor's books. This comparison is usually made monthly by the summary known as bank reconciliation.

## **2.7 Bank reconciliation**

Bank reconciliation is a schedule explaining any differences between the balances shown in the depositor's accounting records. Remember that both the bank and the depositor are

maintaining independent records of the deposits, the checks, and the current balance of the bank account.

Each month the depositor should prepare a bank reconciliation to verify that these independent sets of records are in agreement. This reconciliation may disclose internal control failures, such as unauthorized cash disbursements or failures to deposit cash receipts, as well as errors in either the bank statement or the depositor's accounting records. Furthermore, the reconciliation identifies certain transactions, which must be recorded in the depositor's Accounting records and helps to determine the "actual" amount of cash on deposit. For strong internal control, the employee who reconciles the bank statement should not have any other responsibilities for cash. (Meigs, et al, 1995: 328-329)

## CHAPTER THREE

### 3. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 3.1 INTRODUCTION

This chapter presents the data analysis and interpretation part of the study. The analysis is done by using questionnaires and interview conducted to assess the internal control over cash management of Zenith Gebes Eshet Eth.Ltd. The study generally considered 25 employees of ZGEEL on target population size and out of them 13 employees were taken as a sample by using random sampling. And all questionnaires and interview were properly conducted.

We also tried to review some documents to examine the existence of an accounting manual and for its appropriateness and completeness and existence of policies, procedures and system of control over cash management.

#### 3.2 Analysis of Questionnaire

**Table 1 Personal Characteristic of Employees**

No	Item	Respondents	In figure	Percent (%)
1	Sex	Male	4	40%
		Female	6	60%
		Total	10	100%
2	Age	20-30	4	40%
		30-40	5	50%
		40-50	1	10%
		Total	10	100%
3	Level of Education	Certificate	3	30%
		Diploma	5	50%
		1 <sup>st</sup> Degree	2	20%
		Total	10	100%
4	Position	Casher	3	20%
		Accountant	3	30%
		S. Accountant I	2	20%
		S. Accountant II	2	20%
		Total	10	100%
4	Work Experience	From 1- 3 years	2	20%
		From 4- 6 years	3	30%
		Above 6 years	5	50%
		Total	10	100%

Source- data questionnaire respondent

As it is indicated in Table no 1, item no 1, 4 (40)% of the respondents are male and 6(60) % of the respondents are female, this implies that more female participants in finance department.

As it is indicated in Table no 1, item no 2, 4 (40)% of of the respondents are between 20-30,5(50)% of the respondents between 30-40 and 1(10)% of the respondents between 40-50, this age classification shows that majority of the employees are found in the middle age.

As it is indicated in Table no 1, item no3, 3(30)% of the respondents have certificate,5(50)% of the respondents have diploma and 2(20)% of the respondents have 1<sup>st</sup> degree, this implies majority of the employees are qualified.

According to the table no 1, item no 4 7 (70) % of the respondents are accountants and 3(30) % of respondents were cashers. This implies that most of employees who have role in the internal control over cash are accountants.

As it is indicated in Table no 1, item no 5, 2 (20)% of the respondents have experience between 1-3 yrs,3(30)% of the respondents have 4-6 yrs and 5(50)% of the respondents above 6yrs, this implies majority of the employees had serviced the organization for long time.

**Table 2.Internal control over cash receipts**

No	Statement	Respondent	No	%
<b>1</b>	<b>Does all the cash receipts deposit and intact?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>
<b>2</b>	<b>Is there Job description and responsibility given to each employee?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>
<b>3</b>	<b>Does a responsible official not involved in the custody of the cash make periodic bank reconciliation with cash register?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>
<b>4</b>	<b>Are cash receipts from miscellaneous sources independently controlled?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>
<b>5</b>	<b>Any persons involved in cash handling?</b>	<b>Yes</b>		

	<b>or cash transactions?</b>	<b>No</b>	<b>9</b>	<b>90%</b>
		<b>Not applicable</b>	<b>1</b>	<b>10%</b>
		<b>Total</b>	<b>10</b>	<b>100%</b>
<b>6</b>	<b>Does any person in the cahiers department prepared sales invoices, sales record?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>

Source- data questionnaire respondent

As it is indicated in Table no 2, item no 1. 10(100%) of the respondents have given “yes” response regarding daily cash collection is deposited in the bank account, this shows that good controlling mechanism and safe guarding to cash has been implemented.

On Table no 2, item no 2 10(100%) of the respondents have given “Yes” response about the job description and responsibility given to the employee, this show that there is segregation of duties and responsibilities within the organization.

On table no 2, item no 3 10(100%) of the respondents have given “Yes” response regarding responsible official not involved in the custody of the cash make periodic bank reconciliation with cash book register, this show that the organization assign a right person to the right job .

On table no2, item no 4 10(100%) of the respondents have given “Yes” response regarding cash receipts from miscellaneous sources are independently controlled , this shows the organization controlled each source of income independently.

On table no2, item no 5 9(90%) majority of the respondents have given “Yes” response and 1(10%) of the respondent have given a medium response about any person involved in cash handling or cash transaction. It shows that the organization has maintained a proper job description for each employee. But the organization needs to do some work on this part.

As it is indicated in Table no2, item no 6 10(100%) of the respondents have given “yes” response regarding any person in the cahiers department prepared sales invoices, sales record, this shows good controlling mechanism has been implemented.

No	Statement	Respondent	No	percentage
1	Does the organization have alternate signatories?	Yes		
		No	9	90%
		Not applicable	1	10%
		Total	10	100%
2	Are all checks payment vouchers properly numbered?	Yes	10	100%
		No		
		Total	10	100%
3	Are all Unused cheques properly controlled?	Yes	10	100%
		No		
		Total	10	100%
4	Are all cheques made payable directly to organization?	Yes	9	90%
		No		
		Not applicable	1	10%
		Total	10	100%
5	Does a person who sign cheque prohibited to record cash payment, post to lager account?	Yes	10	100%
		No		
		Total	10	100%
6	Does the organization instruct the banks not to pay the upper limit amount without confirmation?	Yes	9	90%
		No		
		Not applicable	1	10%
		Total	10	100%
7	Are all cheques sign only after they prepared?	Yes	10	100%
		No		
		Not applicable		
		Total	10	100%
8	Is bank reconciliation prepared monthly?	Yes	10	100%
		No		
		Not applicable		
		Total	10	100%
9	Is the person who prepares bank reconciliation prevented from signing cheque, handling cheque, recoding cash transaction?	Yes	10	100%
		No		
		Total	10	100%
10	Are interbank fund transfers are promptly recorded?	Yes	9	90%
		No		
		Not applicable	1	10%
		Total	10	100%
11	Are long outstanding cheques properly followed and controlled?	Yes	10	100%
		No		
		Not applicable		
		Total	10	100%

<b>12</b>	<b>Are all vouchers and supporting documents stamped paid to prevent reuse?</b>	<b>Yes</b>	<b>10</b>	<b>100%</b>
		<b>No</b>		
		<b>Not applicable</b>		
		<b>Total</b>	<b>10</b>	<b>100%</b>

Source- data questionnaire respondent

On table no 3, item no 1 9(90%) majority of the respondents have given “No” response and 1(10%) of the respondent have given a medium response to that the organization has alternate signatory, this shows that the organization don’t have a flexible payment system.

On table no 3, item no 2 10(100%) of the respondents have given “Yes” response regarding cheque payment vouchers are pre- numbered, this shows that the organization has effective internal control over unused vouchers.

On table no 3, item no 3 10(100%) of the respondents have given “Yes” response regarding unused cheques are properly controlled, this shows that the organization has effective controlling mechanism over custodian of unused cheques.

On table no 3, item no 4 9(90%) majority of the respondents have given “yes” response and 1(10%) of the respondent have given a medium response on payment of cheques are directly made or not, this shows that the organization has an effective payment system that will prevent fraudulent endorsement but needs to work on it.

On table no 3, item no 5 10(100%) of the respondents have given “Yes” response regarding a person who sign cheque prohibited to record cash payment and also post to ledger account, this shows that the organization properly applying the rules and regulations concerning segregation of duties with in finance.

On table no 3, item no 6 9(90%) majority of the respondents have given “yes” response and 1(10%) of the respondent have given a medium response about whether the organization instruct the bank not to pay the upper limit amount without confirmation, this shows that the organization is using confirmation as controlling mechanism.

On table no\_3, item no 8 and 10(100%) of the respondents have given “Yes” response about the preparation of bank reconciliation on a monthly basis and the independency of person who prepares it, this shows that internal control over cash at bank is strong enough to safeguard cash held at bank.

On table no\_3, item no 11 and 12(100%) of the respondents have given “Yes” response about the follow up, control over outstanding cheques and paid stamp on the supporting document and vouchers to prevent reuse, this shows that there is effective internal control over cash payment system.

**Table 4. Internal control over petty cash fund**

No	Statement	Respondent	No	percentage
1	Is there imprest system is used?	Yes	10	100%
		No		
		Not applicable		
		Total	10	100%
2	Does a responsible person who not involved in custody of cash make periodic surprise cash count on petty cash fund?	Yes		
		No	10	100%
		Not applicable		
		Total	10	100%
3	Is there an internal auditor?	Yes		
		No	10	100%
		Not applicable		
		Total	10	100%
4	What is the size of petty cash fund?	10,000-50,000		
		50,000-100,000	10	100%
		Above 100,000		
		Total	10	100%

Source- data questionnaire respondent

As table 4 item no 1 revealed, 10(100%) all of respondents have given “Yes” response about the existence of imprest system, this implies that there is effective payment system for those miscellaneous and recurring costs.

As table 4 item no 2 revealed, 10 (100%) that all respondents have given “No” response about the existence of surprise cash count, this implies that the organization internal control over petty cash fund is not strong enough to safeguard the fund from loss of theft.

As table 4 item no 3 revealed, 10(100%) of the respondents have given “No” response about the existence of internal auditor, this implies the organization left both the task of accounting and auditing to the finance department but the role of internal auditor is

preventing and detecting fraudulent activities. So, this shows that the organization internal control system over preventing and detecting of fraudulent activity is weak.

As table 4 item no 4 revealed, 10(100%) of the respondents have given 50,000-100,000 about the size of petty cash, this shows that the organization petty cash fund size is large enough to call it petty cash. So, the payment system regarding petty cash fund is weak.

### **3.3. Analysis of Interview**

#### **3.2.1 Discussion about the cash receipt and payment system**

Cash receipts of ZGEEL result from a variety of sources such as cash sales, collection of receivables, and sundry etc. Effective internal control over cash receipt is expected to include some principles such as establishment of responsibility, Segregation of duties, Cash receipts should be deposited intact daily, Documentation procedures, Check records with bank statement, Cash on premises should be kept in a safe custody, Use pre-numbered cash receipt vouchers, cash sales invoices, cash payment vouchers, checks, etc. In line with this we had interviews, to examine the effectiveness of internal control over cash receipts in ZGEEL.

According to answers to the interview, there is an adequate supervision of cashiers so that all cash receipts are deposited daily and intact and a proper voucher called deposit slip supports all deposits. Besides, there is no payment from daily cash receipts. The main cashier collects cash or cheque from cash collectors (cashiers) and prepares a cash receipt voucher in triplicate which has Original to Payees, First copy to accounts and Second copy remains on the pad. Then, the main cashier prepares bank deposit herself.

To ensure that cheques and other collections that were received had been deposited to Bank, the organization follows (other than bank reconciliation) to have all deposit slips from bank at the end of each month with referenced cheque number and amount on the deposit slip. The main cashier prepares cash receipts and sales summary, total and balance the summary against the cash deposited. The general accounts verifying the accuracy of the summary and corresponding source documents (deposit tickets) signs on the summary and passes it for recording. Finally, the general account checks and codes the supporting documents and passes necessary entry.

All cash collected from miscellaneous sources such as sale of packaging material of imported goods and other incomes are made after the authorization of organization's

general manager. And a separate record "other income" is maintained to control the incomes from the above sources.

The Bank reconciliation is made monthly by general account division assigned staff who is not involved in the custody of cash. And his main responsibility is

- > To check cash book balance against bank statement
- > To check bank deposits with bank statement to ensure regularity of banking
- > Examine that all bank payments are correctly recorded or journalized and posted to the proper account.
- > To check whether interbank transfers of funds that appear in bank statements are properly recorded in cashbook.
- > To investigate any outstanding items and ensure the propriety of the transaction in the account of the company, etc.

The organization does not bond those who handle cash or cash transaction. However, from our physical observation, we found that the organization has a policy that all cashiers without any discrimination are required to provide collateral (bonded) in order to safeguard the organization from loss of theft, embezzlement or other intentional loss that the organization can face from the cashiers.

The organization follows segregation of duties such as:

- > Do not permit any one employee to handle transactions from beginning to end.
- > Prohibited cashiers to prepare sales invoice.
- > Cashiers are not involved in any accounting and record keeping activities.

Internal controls over cash disbursements are more effective when payments are made by check, other than by cash, except for incidental amounts that are paid out of petty cash.

Effective internal control over disbursement is supposed to include the following among other things,

- > Using pre numbered checks and payment vouchers.
- > Stamp vouchers and accounting documents "PAID"
- > Making monthly bank reconciliation
- > Compare checks to supporting documents
- > Store blank checks in safe, etc

In line with this, the researchers we had interviews in order to examine the effectiveness of internal control over cash payments in ZGEEL.

According to the interview, printed and pre numbered payment vouchers are used by the organization. By doing this, the organization has got an advantage such as:

- > To trace reconciled items easily
- > To know unrecorded check
- > To know outstanding checks
- > To issue new check pad after the return of the used one etc.

All unused documents such as cheques are under safe custody and have their own register which shows the in and out movements and a new cheque pad is issued after the return of the used one. All payments by cheques are made payable to the right payee organization, crossed with two parallel lines (crossed cheques) and putting the word "payable to account" between the lines to prevent fraudulent endorsement.

The finance manger is responsible to ascertain the correctness of all documents and ordered to prepare cheques and Cheques are signed only after they are prepared. The general manager and deputy general manager sign on cheques as joint signatory and there is no alternate signatory this may create way to sign blank cheques. However, from our observation, we found that that the organization has a policy that the finance manager or other delegated person from finance must be co signatory with general manager. It is accepted practice of the organization not to involve cheque signatories on recording of cash payments and post to ledger accounts.

Bank reconciliation is prepared monthly. The one who is responsible to prepare bank reconciliation has no involvement in signing checks and handling cash.

All long-outstanding checks are properly followed and controlled in such a way that, if checks are outstanding for more than six months, the check is assumed to be void and the entry previously credited to cash at bank is debited by crediting the creditors account.

Supporting documents are stamped "paid". This is advantageous in order to avoid representation of documents for payment. The organization stamped PAID on all

vouchers and supporting document used by stating voucher number, check number, and date.

About the existence required to ensure that cash funds are reasonable, properly controlled and disbursements are valid transactions. In line with this, we have undergone different interviews to examine the effectiveness of internal control over cash funds.

Petty cash payment vouchers are pre numbered, used for each fund disbursement, signed by the receiver, and approved by the responsible person. The organization's practice is that cashiers are not participating in any accounting and record keeping activities. All funds are kept separately and vouchers are stamped PAID to avoid representation for replenishment. But surprise cash counts are not conducted other than at the time of year-end count.

## CHAPTER FOUR

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 4.1 Summary of findings

The study was design to assess the internal control over cash management of zenith Gebes Eshet Eth. Ltd and also included to suggest possible solution to the problem identified in order to enhance the successful implementations.

Both questioner and interview was the data collection mechanisms conducted for selected respondents.

The findings are analyzed, interpreted and summarized as follows:

- > As regard to the qualification of the respondent's the study shows that 30% of the employees of ZGEEL have certificate,50% of employees have diploma and 20% of employees have 1<sup>st</sup> degree. In addition to this 20% of the employees have a work experiences between 1-3 yrs, 30% of the employees have a work experiences between 4-6 yrs and 50% of the employees have a work experiences greater than 6yrs respectively.
- > Concerning Job description,100% of the respondents have given the job description and responsibility. given to the employee, this show that there is segregation of duties and responsibilities within the organization.
- > The finding shows that 100% of the employees agrees that the preparation of bank reconciliation on a monthly basis the bank reconciliation presented for management for checking the correctness and for approval.
- > As 100% of the employees stated that, there is no internal Auditor.
- > The finding shows that 100% of the employees believe that the daily cash collection is deposited in the bank account.In addition, all the employees replied that cheque payment vouchers are pre- numbered and all unused documents are kept properly.

From our thorough study using the questionnaires, interviews, and physical observation on the internal control over cash management, we come up with the following conclusion.

- > There is clear organizational structure that the overall responsibility of the finance department includes, studying, planning and policy making regarding financial affairs in accordance with the power vested; organizes and directs the department; applies manuals and directives issued from top management and controls the overall financial activities of the organization that shows ZGEEL has sound internal control over cash management.
- > There is also adequate supervision of cashiers so that all cash receipts are deposited daily and intact; this shows the existence of sound internal control over cash management in ZGEEL.
- > ZGEEL There is proper segregation of duties so that no one person has complete controls over one transaction and also, there is an effective control over processed documents, unused pads and all the vouchers are pre-numbered and unused documents are kept properly, this show that ZGEEL has efficient and effective internal control over cash.
- > There is a proper approval and authorization of transactions so that, all payments are made up after getting approved documents by higher officials, the general manager and finance manager, which shows the strength of internal control over cash management of ZGEEL.
- > There is no alternate signatory; absence of alternate signatory in the organization may create a way to sign in the blank cheque, and also, the general manager of the organization is co- signatory with deputy general manager which is not in line with finance manual of the organization. So, the organization has weaknesses on internal control over cash management in this regard.
- > There is no internal auditor, which is not in line with the finance manual of the organization. This is also the other weakness observed by the student researchers.
- > There is no surprise cash count except on year-end cash count. This is also the other incident that leads the organization to inefficient.

ZGEEL has effective internal control over cash such as:

- > Clear duties and responsibilities.
- > Segregation of handing and recording of cash receipts and disbursements.
- > Proper documentation and procedures.

To sustain these strengths, the organization should take the following major actions.

- > Timely feedback of management decisions to subordinates.
- > Continuous evaluation of employees along with reinforcements.
- > Create well trained and supervision employees by giving continuous training.
- > Create well-documented policies and procedures, promote employee understanding of job duties, etc.

When we came to the major weaknesses, we would like to recommend the following issues:

- > There is no alternate signatory in the organization, the organization should maintain alternate signatory in order to create a room for flexibility and avoid the possibilities of signing on blank cheques.
- > There is no internal auditor, having internal auditor will help the organization to make sure whether the organization rules and regulation are well implemented.
- > Surprise cash counts are not conducted other than year-end count. Therefore, we recommend that surprise cash count should be conducted to strengthen the internal control over cash fund. It is also included in the manual saying, "periodic surprise cash count should be made by a person assigned by the Accounting department".

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